

**The Accuracy of the Federal Activities  
Inventory Can Be Improved**

**August 2003**

**Reference Number: 2003-10-181**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

August 27, 2003

MEMORANDUM FOR DIRECTOR, COMPETITIVE SOURCING PROGRAM

A handwritten signature in cursive script, reading "David R. Decker".

FROM: for Gordon C. Milbourn III  
Assistant Inspector General for Audit (Small Business and  
Corporate Programs)

SUBJECT: Final Audit Report - The Accuracy of the Federal Activities  
Inventory Can Be Improved (Audit # 200210049)

This report presents the results of our review to evaluate the effectiveness of the Internal Revenue Service's (IRS) implementation of the Federal Activities Inventory Reform (FAIR) Act of 1998.<sup>1</sup> Current Government-wide management initiatives include the need to produce a more accurate FAIR Act inventory of commercial activities conducted by Federal Government employees and to expand competitive sourcing.

Overall, the IRS needs to improve its compliance with FAIR Act requirements. The IRS submitted its Fiscal Year (FY) 2002 inventory of commercial and inherently Governmental activities to the Department of the Treasury as required. It did not, however, provide specific guidelines to the business units for classifying activities as commercial or inherently Governmental, applying Function Codes, and properly calculating Full-Time Equivalent (FTE)<sup>2</sup> positions for the Fair Act inventory. As a result, business units developed their own methodologies for compiling the inventory, which led to inconsistencies and inaccurate inventories.

We recommended that the Director, Competitive Sourcing Program, provide the business units with specific guidance for categorizing activities as commercial or inherently Governmental, including supplemental definitions to assist business units in using Function Codes properly and consistently IRS-wide. We also recommended that

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<sup>1</sup> Federal Activities Inventory Reform Act of 1998, Pub. L. No. 105-270, commonly referred to as the FAIR Act.

<sup>2</sup> For FY 2002, a Full-Time Equivalent (FTE) position equaled 2,088 compensable hours. FTE employment is the basic measure of the level of employment used in the Federal Government budget.

the IRS develop an IRS-wide process for assembling the Fair Act inventory and ensure business units retain documentation used to compile the inventories. Finally, we recommended that the IRS develop a methodology for properly calculating FTEs for the Fair Act inventory.

Management's Response: The Director, Competitive Sourcing Program, agreed with the methodology, findings and recommendations in the report and will work to implement the corrective actions. Specifically, the Office of the Competitive Sourcing Program will conduct a workshop for FAIR Act Coordinators, focusing on process consistencies. Concurrently, the Office will provide the business units with specific guidance for categorizing positions as commercial or inherently Governmental and using Function Codes properly and consistently IRS-wide, and will also develop a standard IRS-wide process for assembling the FAIR Act inventory that requires business units to document the process. Finally, the Director, Competitive Sourcing Program, will work closely with the Chief Financial Officer and other officials to derive an empirically valid methodology for computing and documenting full-time and part-time/seasonal positions as FTEs in preparing the 2004 and future FAIR Act inventories. Management's complete response to the draft report is included as Appendix IV.

Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Accuracy of the Federal Activities  
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## The Accuracy of the Federal Activities Inventory Can Be Improved

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### Background

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The Federal Activities Inventory Reform (FAIR) Act of 1998<sup>1</sup> requires the head of each executive agency to submit an annual inventory of commercial activities<sup>2</sup> (activities that are not inherently Governmental functions)<sup>3</sup> conducted by Federal Government employees to the Director of the Office of Management and Budget (OMB) by June 30 of each Fiscal Year (FY). OMB Circular No. A-76,<sup>4</sup> *Performance of Commercial Activities*, established Federal policy regarding the performance of commercial activities and implemented the statutory requirements of the FAIR Act.

The purpose of the FAIR Act is to ensure that activities that could be conducted by the private sector are properly identified and open for competition. The FAIR Act inventory of commercial activities identifies the activities subject to competition with the private sector. Current Government-wide management initiatives include the need to produce a more accurate FAIR Act inventory of commercial activities conducted by Federal Government employees and to expand competitive sourcing.

Competitive sourcing is the process for determining whether it is more efficient to perform commercial activities under contract with commercial vendors or to use Federal Government facilities and personnel. In September 2001, the Internal Revenue Service (IRS) created the Office of the Competitive Sourcing Program to support the IRS in using competition to produce cost savings and efficiencies that benefit taxpayers and the IRS workforce.

For FY 2002, the OMB required agencies to prepare a single inventory that included both inherently Governmental and commercial activities. The Department of the Treasury consolidated the inventories from its various bureaus, including the IRS, and forwarded a department-wide inventory to the OMB. Table 1 shows the IRS' Full-Time

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<sup>1</sup> Federal Activities Inventory Reform Act of 1998, Pub. L. No. 105-270, commonly referred to as the FAIR Act.

<sup>2</sup> A commercial activity is a process resulting in a product or service that is or could be obtained from a commercial source.

<sup>3</sup> An inherently Governmental function is a function that is so intimately related to the public interest as to mandate performance by Federal Government employees.

<sup>4</sup> Revised 1999.

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Equivalent (FTE) positions for both categories as included in the FY 2002 FAIR Act inventory.

**Table 1 – Summary of the IRS’ FAIR Act Inventory for FY 2002**

Status	Number of FTEs <sup>5</sup>
Commercial	19,610
Inherently Governmental	81,105
Total	100,715

*Source: Department of the Treasury.*

We conducted audit work at the Office of the Competitive Sourcing Program in Washington, D.C., from October 2002 to May 2003. We interviewed the IRS-wide FAIR Act Coordinator, functional FAIR Act Coordinators, and selected managers in the four Operating Divisions, the Agency-Wide Shared Services office, and the Modernization, Information Technology and Security Services office. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

### Better Guidelines and Documentation of the Process for Classifying Activities Are Needed

Overall, the IRS needs to improve its compliance with FAIR Act requirements. The IRS submitted its FY 2002 inventory of commercial and inherently Governmental activities to the Department of the Treasury as required. It did not, however, provide specific guidelines to the business units for classifying activities as commercial or inherently Governmental, applying Function Codes, and properly calculating FTEs for the inventory.

The OMB policy<sup>6</sup> recognizes that determining whether a function is inherently Governmental is often difficult and depends upon an analysis of the factors of the case. However, the presence or absence of any one factor will not

<sup>5</sup> For FY 2002, an FTE equaled 2,088 compensable hours. FTE employment is the basic measure of the level of employment used in the Federal Government budget.

<sup>6</sup> OMB Policy Letter 92-1 (September 23, 1992).

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in itself determine the issue. The same emphasis will not necessarily be placed on any one factor at different times, due to the changing nature of the Federal Government's requirements.

Because of the difficulties involved, it is important that Federal Government agencies provide adequate guidance and properly document the process and decisions made to compile the inventories. Without proper guidance and documentation, it is difficult to determine whether the FAIR Act inventories include activities in the proper category. It is especially important for activities that can be classified in either category, depending on the nature and scope of responsibilities for functions and jobs within that category.

In the IRS' FAIR Act inventory for FY 2002, there were a number of activities within the IRS business units for which there were FTEs in the commercial and the inherently Governmental categories. The IRS business units categorized FTEs in 37 similar activities as both commercial and inherently Governmental. These activities represented 5,288 commercial and 18,069 inherently Governmental FTEs. Table 2 provides examples.

**Table 2 – Examples of Activities That the Same Business Unit Classified as Both Commercial and Inherently Governmental**

Activity	FTEs	
	Commercial	Inherently Governmental
Systems Design, Development, and Programming Services	1,601	148
Information Technology Management	269	278
Facility Security Management	50	198
Program Monitoring and Evaluation	35	131

*Source: IRS' FAIR Act inventory for FY 2002.*

In addition, there were 18 activities for which the classification as commercial or inherently Governmental for the same activity differed among the business units. For example, 1 business unit categorized 218 FTEs for Regulatory and Program Management Support Services, Compliance Operations, as commercial, while another

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business unit categorized 2,166 FTEs for the same activity as inherently Governmental. The 18 activities represented 2,044 commercial FTEs and 4,699 inherently Governmental FTEs.

The justification to support these classifications was not documented. Although FY 2002 was the fourth year in which agencies were required to submit FAIR Act inventories, the IRS business units did not document the process for compiling inventories or the decisions made in this process. The business units consulted with each other and attempted to reach a consensus about how to classify some of the activities; however, final decisions were left to the discretion of the individual business units.

The Office of the Competitive Sourcing Program provided the business units with general OMB and Department of the Treasury guidance for FY 2002 but did not develop and disseminate specific guidelines. The FAIR Act Coordinators requested additional assistance from the Office of the Competitive Sourcing Program; however, they were informed that because of resource, time, and other constraints, this Office could not provide guidance to the business units for the FY 2002 FAIR Act inventory. Additionally, there were differences in the number of FAIR Act Coordinators per business unit, their level in the organization, and the participation of business unit managers in the process.

### **Different Function Codes were applied to similar activities**

The OMB published a list of Function Codes to provide a standardized way for an agency to describe those activities which the agency has determined are commercial in nature. Function Codes are the most descriptive elements that are included in the published FAIR Act inventory. Not all activities described by the Function Codes must be classified as commercial. The agency must evaluate the work and take into consideration the context in which the work is conducted. Agencies may augment these Function Codes for internal use, by adding to the existing



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alphanumeric codes provided, but may not create new codes or add additional codes in the submission to the OMB.<sup>7</sup> The OMB instructions for FY 2002 direct agencies to also use the Function Codes for inherently Governmental functions.

The FAIR Act allows an interested party (such as a vendor) to challenge the omission of a particular activity from or inclusion of a particular activity in an agency's inventory. Function Codes help an interested party identify and challenge the classification of the activity. It is important that this information is accurate to achieve the maximum benefits of competition.

Our analysis of data for 3 IRS business units showed that they did not consistently assign Function Codes to 11,324 FTEs representing similar job series and job titles. For example, 1 business unit used the "Data Processing Services" Function Code for its 5,062 data transcriber FTEs. Another business unit used the "Administrative Support" Function Code for its 1,671 data transcriber FTEs. The duties of data transcribers, which include entering data from tax returns and documents into IRS computer systems, have many similarities from one business unit to the next.

There was also inconsistency in the number of Function Codes used to describe activities. For example, to describe program manager activities, 1 business unit used 5 different Function Codes for its 123 FTEs, while another unit used 1 completely different Function Code to describe its 409 program manager FTEs.

The IRS did not have specific procedures or definitions to guide the business units in applying Function Codes to activities. FAIR Act Coordinators acknowledged that applying a Function Code to a particular job or activity was subjective. The IRS used 147 of the approximately 700 Function Codes that were available for FY 2002. However, OMB provided definitions for only 44 of the 147 Function Codes that the IRS used.

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<sup>7</sup> OMB – Year 2002 FAIR Act Inventory Commercial Activities Inventory Function Codes.

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Many of the Function Codes are similar and not clearly defined. One FAIR Act Coordinator provided an example of four Function Codes that could be used to describe the activities conducted by employees in the program analyst series. Any of the Codes could be, and were, applied to positions in that series. In some cases, a Function Code was used because it had been used in the FY 2001 inventory.

The Office of the Competitive Sourcing Program recognized that the business units needed guidance in classifying activities and selecting Function Codes. Consequently, the Office issued the IRS' 2003 supplemental guidance, which specifically states that administrative support services activities will be classified as commercial and provides the Function Code for those activities. The guidance also:

- Provides examples of functions that are considered inherently Governmental.
- Prohibits the use of "other" Function Codes for commercial activities because they are too general.

While these efforts should help to reduce inconsistencies in future inventories, additional guidance is needed to address other activities and Function Codes.

### **Recommendations**

The Director, Competitive Sourcing Program, should:

1. Provide the business units with specific guidance for categorizing activities as commercial or inherently Governmental for all types of activities. The Director should include guidance and supplemental definitions to assist the business units in using Function Codes properly and consistently IRS-wide.

Management's Response: The Director, Competitive Sourcing Program, will conduct a workshop for FAIR Act Coordinators, focusing on process consistencies. Concurrently, the Office of Competitive Sourcing Program will provide the business units with specific guidance for categorizing positions as commercial or inherently Governmental and using Function Codes properly and consistently IRS-wide.

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2. Develop an IRS-wide process for assembling the FAIR Act inventory, and require business units to document the process for categorizing the inventory and to retain the documentation.

Management's Response: The Director, Competitive Sourcing Program, will develop a standard IRS-wide process for assembling the FAIR Act inventory that will require business units to document the process for categorizing the inventory and to retain the documentation. This process will be shared with the business units at the December 2003 coordinators conference.

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### **The Number of Full-Time Equivalent Positions in Some of the Individual Business Unit Inventories Was Not Accurate**

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The OMB required each agency to report the same number of FTEs on its FAIR Act inventory as it had reported in its annual budget. The number of IRS on-rolls employees varies significantly from the number of budgeted FTEs throughout the year because of the seasonal nature of certain tax return processing operations at the IRS. The number of actual on-rolls employees at the time the FAIR Act Coordinators prepared the FY 2002 inventory was higher than the number of budgeted FTEs for some business units. The FAIR Act Coordinators for those business units used their own methods for adjusting the number of on-rolls employees to match the FTEs in the budget.

The number of on-rolls employees included permanent and seasonal employees. The majority of seasonal employees work in the two largest business units, the Wage and Investment (W&I) Division and the Small Business/Self-Employed (SB/SE) Division. These 2 business units represented approximately 66 percent of the FY 2002 IRS FAIR Act inventory. Both of these business units had a higher number of on-rolls employees than the budgeted FTEs at the time the inventories were prepared. However, instead of separately adjusting the numbers of permanent and seasonal employees, both the W&I and SB/SE Divisions adjusted the on-rolls numbers of FTEs by dividing the budgeted FTEs by the actual number of on-rolls employees. This adjustment did not properly weight seasonal and permanent employees.

The SB/SE Division retained supporting documentation that showed how many seasonal and permanent employees were

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on-rolls at the time the inventories were prepared. The SB/SE Division used the following computation to adjust its on-rolls positions:

$$(\text{Budgeted FTEs})/(\text{On-rolls}) = \text{Conversion Factor}$$

$$37,389/44,544 = \mathbf{0.84}$$

The SB/SE Division applied this 0.84 conversion factor to every line item on its inventory.

The IRS' *CFO Guidance on Calculating FTE*<sup>8</sup> provides an IRS-wide average factor of .54 for seasonal employees and 1.00 for permanent employees. Table 3 provides examples of certain line items on the FAIR Act inventory to show the effect of using the SB/SE Division's adjustment factor, which weighted all employees equally in calculating FTEs, compared with using the CFO rate for the seasonal employees.

**Table 3 – Examples of the Effect of Using Different Factors for Permanent and Seasonal Employees**

Inventory Item	FTEs		
	SB/SE Factor (Reported)	CFO Guidance	Difference
Data transcribers at one submission processing center	760	467	-293
Contact representatives at one location	194	119	-75
Tax examining assistants at one location	86	98	+12

*Source: The SB/SE Division's reported FTEs and IRS-wide FTE averages as reported by the CFO.*

Using the *CFO Guidance on Calculating FTE* as a baseline in its FY 2002 inventory, the SB/SE Division overstated the number of seasonal employees and understated its permanent employees by 3,765 FTEs based on misstatements by line item. The effect of the conversion on the SB/SE Division's FTE classification in the overall

<sup>8</sup> Chief Financial Officer (CFO).

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inventory was an overstatement on the commercial inventory and an understatement of the inherently Governmental inventory of 561 FTEs.<sup>9</sup>

The W&I Division was unable to provide us with the documentation needed to recalculate and quantify revised FTE data. However, the effect on the number of permanent employees would have been greater because the W&I Division used a factor of 0.64, as opposed to the 0.84 factor used by the SB/SE Division. For example, for every 1,000 FTEs for permanent employees that it should have reported, the SB/SE Division reported 840 FTEs, while the W&I Division reported 640 FTEs.

Adjusting the number of on-rolls employees is a valid step in arriving at the FTEs for the FAIR Act inventory. However, business units must use separate factors for seasonal and permanent employees when making the adjustment. The CFO conversion factor for seasonal employees is based on an IRS-wide average; therefore, each business unit must determine the proper factor for seasonal employees to ensure an accurate calculation. Applying a single factor to both seasonal and permanent employees causes significant misstatements on the FAIR Act inventory.

### **Recommendation**

3. The Director, Competitive Sourcing Program, should develop a methodology for each business unit to use to properly calculate FTEs for the FAIR Act inventory.

**Management's Response:** The Director, Competitive Sourcing Program, will work closely with the Chief Financial Officer and other officials to derive an empirically

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<sup>9</sup> The reason for the difference in the misstatements by line item versus that of the classification in the overall inventory is that some of the overstatements and understatements offset each other, because both the inherently Governmental and the commercial inventories included overstated seasonal employees and understated permanent employees.

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valid methodology for computing and documenting full-time and part-time/seasonal positions as FTEs in preparing the 2004 and future FAIR Act inventories.

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### Appendix I

#### Detailed Objective, Scope, and Methodology

The overall objective of our review was to evaluate the effectiveness of the Internal Revenue Service's (IRS) implementation of the Federal Activities Inventory Reform (FAIR) Act of 1998.<sup>1</sup> To accomplish this objective, we completed the following sub-objectives and steps:

- I. To determine whether the FAIR Act inventory was complete and prepared in accordance with Office of Management and Budget (OMB) guidance, we:
  - A. Interviewed FAIR Act Coordinators and some managers in 6 different business units, which represented approximately 87 percent of the IRS' Fiscal Year (FY) 2002 FAIR Act inventory.
  - B. Reviewed guidance documents.
  - C. Reviewed methodologies used to categorize activities, assign Function Codes, and calculate Full-Time Equivalent (FTE)<sup>2</sup> positions for the FY 2002 FAIR Act inventory.
  - D. Verified whether the IRS used Function Codes approved by the OMB, prepared the inventory in the format required by the OMB, and reported the correct FTE count.
- II. To determine whether the FY 2002 FAIR Act inventory was accurate, we:
  - A. Identified business units that categorized FTEs with the same Function Code as both commercial and inherently Governmental and requested supporting documentation.
  - B. Identified instances in which a business unit categorized FTEs with a Function Code as commercial and another division categorized FTEs with the same Function Code as inherently Governmental and requested supporting documentation.
  - C. Reviewed the OMB requests for changes to the IRS' FY 2001 FAIR Act inventory and any resulting adjustments the IRS made to the FY 2002 FAIR Act inventory.
- III. Evaluated whether the IRS timely decided and responded to any challenges and appeals to the FY 2002 FAIR Act inventory.

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<sup>1</sup> Federal Activities Inventory Reform Act of 1998, Pub. L. No. 105-270, commonly referred to as the FAIR Act.

<sup>2</sup> For FY 2002, an FTE equaled 2,088 compensable hours. FTE employment is the basic measure of the level of employment used in the Federal Government budget.

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**Appendix II**

**Major Contributors to This Report**

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

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Michael J. Della Ripa, Auditor



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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Deputy Commissioner for Operations Support N:OS  
Deputy Commissioner for Services and Enforcement N:SE  
Commissioner, Large and Mid-Size Business Division LM  
Commissioner, Small Business/Self-Employed Division S  
Commissioner, Tax Exempt and Government Entities Division T  
Commissioner, Wage and Investment Division W  
Chief, Agency-Wide Shared Services A  
Chief Information Officer CIO  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:AR:M  
Audit Liaison: Director, Competitive Sourcing Program CS

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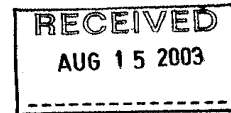
Appendix IV

## Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

AUG 15 2003



MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT  
(SMALL BUSINESS AND CORPORATE PROGRAMS)

FROM:

*Raymona L. Stickell*  
Raymona L. Stickell  
Director, Competitive Sourcing

SUBJECT:

Draft Audit Report – The Accuracy of the Federal Activities  
Inventory Can Be Improved (Audit # 200210049)

We concur with the methodology, findings and recommendations in the report. While we recognize the deficiencies associated with our 2002 FAIR Act Inventory, we have made significant improvements in the management, process and outcome of the 2003 FAIR Act Inventory. For example, this year the Treasury Department complimented us on having less than 10 errors in the Treasury FAIR Act Inventory management system, compared to over 500 errors in 2002. In addition, we improved the overall credibility of the 2003 FAIR Act Inventory through the following actions:

- Establishing a FAIR Act Inventory Coordination Group (FAICG), with representatives from each business unit and other special staff. The FAICG met bi-weekly.
- Integrating the 2003 FAIR Act Inventory data and reports with Authorized Staffing and Charting (ASC)/HR Connect staff accounting system, which created the ability to track FAIR Act Inventory data elements to specific IRS positions, and eliminated the need to develop a stand-alone inventory database. This data management innovation has produced an added capability for generating a wide range of inventory reports that we use to identify and correct anomalies and variations in inventory reporting practices. In 2004, all the FAIR Act data will be on a shared drive, and each business unit FAICG point of contact will maintain their data in these folders. We are also developing an inherently governmental determination matrix, which will assist the FAICG representatives in determining if a function is inherently governmental or commercial.

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- Initiating a formal training program and developing comprehensive policy and procedural guidelines to ensure the FAICG members have the necessary tools to carry out their duties.
- Scrutinizing those functional areas that had challenges with the 2002 inventory to fix those problems. We will continue to examine each functional area in successive inventory efforts until all IRS manpower-intensive functional areas are fully validated for classification as either inherently governmental or commercial.
- Conducting a two hour FAIR Act Inventory orientation meeting for Senior Management, which focused on their role in the inventory process and the guidelines for the 2003 FAIR Act Inventory Development.

The success of these efforts is evidenced in the following table that compares the IRS 2002 Inventory to the 2003 submission.

	<b>Inherently Gov. FTE</b>	<b>Commercial FTE</b>	<b>Total FTE</b>
2002	81,105	19,610	100,715
2003	61,788	34,020	95,808

Our goal for the 2004 IRS FAIR Act Inventory is to produce an accurate and complete inventory that is 100% defensible. I am confident that our planned corrective actions will make the IRS' process a "best in class" within the federal government.

If you have any questions or comments, please contact me at (202) 927-7550.

Attachment

## **The Accuracy of the Federal Activities Inventory Can Be Improved**

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Attachment

### **Corrective Action Plan in Response to Draft Audit Report – The Accuracy of the Federal Activities Inventory Can Be Improved (Audit # 200210049)**

#### **Recommendation 1**

The Director, Competitive Sourcing should provide the business units with specific guidance for categorizing activities as commercial or inherently governmental for all types of activities. The Director, Competitive Sourcing should include guidance and supplemental definitions to assist the business units in using function codes properly and consistently IRS-wide.

#### **Corrective Action**

We will conduct a workshop for FAIR Act coordinators, focusing on process consistencies. At that time, we will provide the business units with specific guidance for categorizing activities as commercial or inherently governmental for all types of activities. We will also provide guidance and supplemental definitions to assist the business units in using function codes properly and consistently through the IRS.

#### **Proposed Corrective Action Completion Dates**

January 15, 2004 (workshop scheduled for December 2003)

#### **Responsible Official**

Director, Competitive Sourcing

#### **Corrective Action Monitoring Plan**

The IRS Competitive Sourcing Office has developed a detailed Plan of Action and Milestones (POA&M), covering more than 50 specific tasks that we will use to plan, monitor, and evaluate the 2004 FAIR Act Inventory process.

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### **Recommendation 2**

The Director, Competitive Sourcing should develop an IRS-wide process for assembling the FAIR Act Inventory, and require business units to document the process for categorizing the inventory and to retain the documentation.

### **Corrective Action**

During the planning and execution stages of the 2003 FAIR Act Inventory, we stressed to the business units the importance of maintaining records of methodologies and the rationale they used to determine the assignment of the commercial function code, work classifications, and commercial reason codes. The purpose was to provide an audit trail for understanding why functions/positions were categorized as governmental or commercial. We will now develop a standard IRS-wide process for assembling the FAIR Act inventory that requires business units to document the process for categorizing the inventory and to retain the documentation. We will share this process at the December 2003 coordinators conference.

### **Proposed Corrective Action Completion Date**

January 15, 2004

### **Responsible Official**

Director, Competitive Sourcing

### **Corrective Action Monitoring Plan**

The IRS Competitive Sourcing Office has developed a highly detailed Plan of Action and Milestones (POA&M). This plan will be used to plan, monitor, and evaluate the 2004 FAIR Act Inventory process.

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### **Recommendation 3**

The Director, Competitive Sourcing Program, should develop a methodology for each business unit to use to properly calculate FTEs for the FAIR Act inventory.

### **Corrective Action**

We will work closely with the Chief Financial Officer, selective Division Heads, and potentially with OMB's Office of Federal Procurement Policy, to derive an empirically valid methodology for computing and documenting full-time and part-time/seasonal positions as FTE in the 2004 and future FAIR Act Inventories. We will also determine how to reconcile occupied ("on-roll") and vacant authorized positions that are evident at the time of the annual inventory, in relation to the fiscal year's budgeted FTE. The goal will be to establish credible methodologies that we can apply agency-wide. We will disseminate guidance resulting from these actions to all managers and FAIR Act Coordinators prior to preparing the 2004 FAIR Act Inventory

### **Proposed Corrective Action Completion Dates**

January 15, 2004

### **Responsible Official**

Director, Competitive Sourcing

### **Corrective Action Monitoring Plan**

The IRS Competitive Sourcing Office has developed a highly detailed Plan of Action and Milestones (POA&M). This plan will be used to plan, monitor, and evaluate the 2004 FAIR Act Inventory process.